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SUPERPACK
CORPORATION
LIMITED

1973
ANNUAL
REPORT



Superpack Corporation Limited

Officers

Irving Gould, *Chairman of the Board*
Vincent P. Paul, *President*
Guido Brina, *Vice-President*
Herman C. Vinnet, *Vice-President of Finance and Secretary*
Gerald Papernick, *Treasurer and Assistant Secretary*

Directors

Guido Brina, *Monmouth Beach, New Jersey*
Irving Gould, *Nassau, Bahamas*
Vincent P. Paul, *Toronto, Ontario*
Stanley J. Randall, *Toronto, Ontario*
William F. Saynor, *Toronto, Ontario*

Registrar and Transfer Agent

Guaranty Trust Company of Canada

Auditors

Wm. Eisenberg & Co.

General Counsel

Davies Ward and Beck

Head Office

3370 Pharmacy Avenue
Agincourt, Ontario

Branch Offices

Montreal, *Canada*
Los Angeles, *California*
St. Louis, *Missouri*
Elizabeth, *New Jersey*
Jersey City, *New Jersey*
Nassau, *Bahamas*

Annual Report 1973

LETTER FROM THE PRESIDENT

Gross operating revenues for the fiscal year ended November 30, 1973 increased by 4.1% over the preceding year. This figure, as detailed in the notes to the consolidated financial statements, reflects an increase in the metal housewares and printing operation, and a nominal decrease in the packaging operation. The net earnings of \$61,768 or 11¢ per share included an extraordinary profit of \$197,339 representing the proceeds from the resale of the shares of Scholarship Consultants of North America Limited.

A series of events contributed to the greatly reduced profit of Nortex Products Company, the metal housewares division. These include the costs of the relocation of the two Nortex plants to a combined facility in Agincourt, Ontario, together with unprecedented increases in raw material costs. In addition the Canadian Railway strike adversely affected the earnings of the company. The additional capacity of our new Nortex plant is reflected in the gross operating revenues for the three months ended February 28, 1974. An increase of 41% in this division is shown over the comparable period of the preceding year.

The potential profitability of Gildon Metal Enterprises Limited was not reflected during its initial nine months ended November 30, 1973. However, it is felt that progress in this direction is presently being made.

We are enclosing with this report, a copy of the operating results for the three month period ended February 28, 1974 with comparative figures for the same period in the preceding fiscal year.

For the Board of Directors



President

Toronto, Canada
April 22, 1974

Financial Summary

Five Year Combined Financial Summary in Canadian Funds

<i>Year Ended November 30</i>	1973	1972	1971	1970	1969
Gross Operating Revenues	\$11,210,776	\$10,772,412	\$9,306,356	\$9,234,319	\$9,768,573
Gross Earnings	433,241	900,553	1,035,563	978,887	1,342,962
Depreciation and Amortization	358,764	316,320	344,418	373,808	510,786
Interest	318,213	258,508	206,581	192,753	111,956
Income Taxes (Recoverable)	(105,170)	163,349	249,861	224,261	367,941
Net Earnings (loss) from Consolidated Operations	(135,571)	162,376	234,703	188,065	352,279
Net Earnings (losses) from Non-Consolidated Operations	—	—	(243,650)	78,725	32,207
Net Earnings (loss) before Extraordinary Items	(135,571)	162,376	(8,947)	266,790	384,486
Extraordinary Items	197,339	21,825	(3,219,975)	(32,762)	68,538
Net Earnings (loss)	61,768	184,201	(3,228,922)	234,028	453,024
Earnings (loss) per share on:—					
Net Earnings from Consolidated Operations	(0.24)	0.28	0.41	0.33	0.64
Net Earnings from Non-Consolidated Operations	—	—	(0.42)	0.14	0.06
Net Earnings before Extraordinary Items	(0.24)	0.28	(0.01)	0.47	0.70
Extraordinary Items	0.35	0.04	(5.60)	(0.06)	0.12
Net Earnings	0.11	0.32	(5.61)	0.41	0.82
Funds provided by consolidated operations, per share	0.39	0.84	1.00	0.98	1.56
Average number of shares outstanding during year	572,687	572,570	575,133	574,722	550,625

Auditors' Report

To the shareholders of
SUPERPACK CORPORATION LIMITED

We have examined the consolidated balance sheet of Superpack Corporation Limited as at November 30, 1973, and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Superpack Corporation Limited included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of subsidiary companies.

In our opinion, subject to the outcome of the matter referred to in note 12, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1973, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 11, 1974

WM. EISENBERG & CO.
Chartered Accountants

and subsidiary companies

	<u>1973</u>	<u>1972</u>
Earnings		
Gross operating revenues (note 9)	<u>\$11,210,776</u>	<u>\$10,772,412</u>
Earnings before provision for the undernoted items	<u>433,241</u>	900,553
Depreciation and amortization of fixed assets (note 4)	286,803	264,353
Amortization of intangible assets	71,961	51,967
Interest (including \$172,732 on long-term debt; 1972—\$231,134)	<u>318,213</u>	<u>258,508</u>
	<u>676,977</u>	<u>574,828</u>
Earnings (loss) before income taxes, minority interest and extraordinary item	<u>(243,736)</u>	325,725
Income taxes payable (recoverable)—current	(134,379)	160,671
—deferred	<u>29,209</u>	<u>2,678</u>
	<u>(105,170)</u>	<u>163,349</u>
Earnings (loss) before minority interest and extraordinary item	<u>(138,566)</u>	162,376
Minority interest	<u>2,995</u>	—
Earnings (loss) before extraordinary item	<u>(135,571)</u>	162,376
Extraordinary item (note 10)	<u>197,339</u>	<u>21,825</u>
Net earnings for the year	<u>\$ 61,768</u>	<u>\$ 184,201</u>
Earnings (loss) per share before extraordinary item	<u>(.24)</u>	<u>.28</u>
Earnings per share	<u>.11</u>	<u>.32</u>
Average number of shares outstanding	<u>572,687</u>	<u>572,570</u>

	<u>1973</u>	<u>1972</u>
Balance (deficit), beginning of year	\$(1,261,535)	\$(1,445,736)
Reduction of deficit resulting from decrease in value of paid up capital stock (note 8)	1,613,795	—
Net earnings for the year	<u>61,768</u>	<u>184,201</u>
Balance (deficit), end of year	\$ 414,028	\$(1,261,535)

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and subsidiary companies

ASSETS

Approved on Behalf of the Board

"V. P. Paul", Director

LIABILITIES

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES		
Bank indebtedness (note 6)	\$ 2,336,128	\$ 1,360,843
Accounts payable and accrued liabilities	1,493,645	1,237,926
Income and other taxes payable	96,844	126,298
Long-term debt due within one year (note 7)	<u>254,234</u>	<u>532,990</u>
	<u>4,180,851</u>	<u>3,258,057</u>
LONG-TERM DEBT (note 7)	<u>1,460,160</u>	<u>1,569,731</u>
DEFERRED INCOME TAXES	<u>46,718</u>	<u>9,954</u>
TOTAL LIABILITIES	<u>5,687,729</u>	<u>4,837,742</u>
MINORITY INTEREST	<u>9,050</u>	<u>—</u>
 SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)	790,295	2,404,090
RETAINED EARNINGS (deficit)	<u>414,028</u>	<u>(1,261,535)</u>
	<u>1,204,323</u>	<u>1,142,555</u>
	<u>\$ 6,901,102</u>	<u>\$ 5,980,297</u>

See attached notes

Superpack Corporation Limited

and subsidiary companies

Consolidated Statement of Source and Use of Funds for the year ended November 30, 1973

SOURCE OF FUNDS

	<u>1973</u>	<u>1972</u>
Operations		
Net earnings for the year	\$ 61,768	\$ 184,201
Charges not affecting working capital		
Depreciation and amortization	358,764	316,320
Deferred income taxes	29,209	2,628
Minority interest in loss of subsidiary company	(2,995)	—
	<u>446,746</u>	<u>503,149</u>
Disposal of fixed assets	4,558	20,825
Sale of investment in subsidiaries	—	140,500
Realization of sundry investments	—	2,004
Increase in long-term debt	102,711	338,550
Conversion of debentures to common shares	—	5,000
	<u>554,015</u>	<u>1,010,028</u>

USE OF FUNDS

Acquisition of shares of subsidiary company, including negative working capital assumed as at date of acquisition (as set out below)	201,337	—
Additions to fixed assets	417,312	524,550
Acquisition of investments	538	720,000
Additions to other assets	115,629	20,569
Repayment of long-term debt	555,138	470,344
	<u>1,289,954</u>	<u>1,735,463</u>
Decrease in working capital (exclusive of long-term debt due within one year)	\$ 735,939	\$ 725,435
Acquisition of shares of subsidiary represented by:		
Fixed assets	\$ 160,479	
Goodwill	124,558	
	<u>285,037</u>	
Less: Long-term loans	\$64,100	
Deferred income taxes	7,555	
Minority interest	<u>12,045</u>	
	<u>83,700</u>	
	<u>\$ 201,337</u>	

Notes to the Consolidated Financial Statements

November 30, 1973

1. Principles of Consolidation

The consolidated financial statements include the accounts of the company and its active wholly-owned subsidiaries. In 1973, the company acquired all the preference shares and 80% of the common shares of Gildon Metal Enterprises Limited for a purchase price of \$182,590. All significant intercompany accounts and transactions have been eliminated.

Foreign currencies have been translated into Canadian dollars on the following bases:

Current assets and liabilities	—at the rate of exchange on November 30;
Other assets and liabilities	—at historical rates of exchange
Income and expenses	—at average rates of exchange except for provision for depreciation and amortization which are translated on the same basis as the related assets.

2. Inventories

Inventories which are valued at the lower of cost and net realizable value consist of the following:

	1973	1972
Raw materials.....	\$1,024,938	\$ 634,861
Work-in-process.....	201,430	398,038
Finished goods.....	431,953	457,448
	<u>\$1,658,321</u>	<u>\$1,490,347</u>

3. Investments

Investments consist of the following:

Shares of Corporate Properties Limited—at cost (market value \$400,000).....	\$732,000
Other—at cost (no quotable market value)....	8,929
	<u>\$740,929</u>

4. Fixed Assets

Fixed assets consist of the following:

	Cost	Accumulated Depreciation	Net
Land	\$ 75,054	\$ —	\$ 75,054
Building and improvements	262,589	47,713	214,876
Vending units	1,138,425	1,084,071	54,354
Machinery, equipment, furniture and fixtures	2,686,385	1,547,144	1,139,241
Vehicles	66,622	33,604	33,018
Leasehold improvements	231,393	149,505	81,888
Tools and dies	303,689	276,101	27,588
	<u>\$4,764,157</u>	<u>\$3,138,138</u>	<u>\$1,626,019</u>

Depreciation and amortization of fixed assets are provided for on the straight line method which is based on their estimated useful life, except for the majority of vending units which are being depreciated on the sum of the digit method.

5. Other Assets

These consist of the following:

	Cost	Accumulated Amortization	Net
Patent rights, licensing agreements and trademarks	\$ 752,285	\$ 212,500	\$ 539,785
Excess of cost of subsidiary over book value on acquisition	124,558	9,342	115,216
Cost of amending terms of debenture issue	20,569	6,856	13,713
Other	68,185	12,538	55,647
	<u>\$ 965,597</u>	<u>\$ 241,236</u>	<u>\$ 724,361</u>

Patents, licensing and development costs incurred prior to November 30, 1968 are being amortized over a period of 20 years on a straight line basis. Patent and trademark costs incurred subsequent to that date are being amortized over a period of 120 months on a straight line basis.

The excess of cost of Gildon Metal Enterprises Limited over book value on acquisition is being amortized over a period of 120 months on a straight line basis.

The cost of amending the terms of the debenture issue is being amortized over a period of 60 months on a straight line basis.

6. Bank Indebtedness

Included in this liability is \$1,701,128 which is secured by assignment of accounts receivable and inventories. In addition, there is a demand bank loan of \$635,000 which was incurred to finance the purchase of 200,000 common shares representing a 19.99% interest in Corporate Properties Limited and is secured by the shares acquired. The repayment provisions for this loan are as follows:

1974.....	\$360,000
1975.....	\$275,000

Superpack Corporation Limited

and subsidiary companies

Notes to the Consolidated Financial Statements (continued) November 30, 1973

7. Long-term Debt

Long-term debt consists of the following:

9% convertible debentures maturing March 31, 1977 (see details below) \$1,298,867

Loans payable secured by a chattel mortgage on certain equipment of a subsidiary and by a floating charge debenture on all the assets of that subsidiary. The rate of interest is 2½% above the prime bank rate and the loans are repayable in varying monthly instalments to 1975 94,100

Notes payable bearing rates of interest between 7% and 10%, secured by certain equipment of a subsidiary, and repayable in varying monthly instalments to 1976 66,215

Capitalized equipment leases, bearing interest at 7%, and repayable in instalments to 1978 22,767

Contract obligation to former officers of a subsidiary, non-interest bearing and payable in monthly instalments to 1975, collateralized by investments held by the subsidiary 21,825

7½% note payable collateralized by equipment, payable in monthly instalments of \$6,011 to 1977 210,620

1,714,394

Less: Amounts due within one year 254,234

\$1,460,160

The debentures are secured by a floating charge on the assets of the company and its subsidiaries and the amended indenture dated March, 1972, provides, among other things that:

- (a) The debentures bear interest at the rate of 9% per annum.
- (b) The debentures are redeemable under certain conditions from time to time at the principal amount, together with a premium of less than 1%, which premium reduces to nil in 1977.
- (c) The company covenants to pay to the trustee amounts sufficient to retire out of sinking fund contributions, aggregate principal amounts of the debentures, as follows:

March 31, 1974 — \$ 80,000

March 31, 1975 — 150,000

March 31, 1976 — 150,000

- (d) The debentures mature on March 31, 1977.
- (e) The debentures are convertible under certain conditions at the holders' option at the rate of one share for each of the following principal amounts:

April 1, 1973 — March 31, 1974 — \$11.00

April 1, 1974 — March 31, 1975 — 12.00

April 1, 1975 — March 31, 1976 — 13.00

April 1, 1976 — March 31, 1977 — 14.00

8. Capital Stock

	Number of Shares	Amount
(a) Authorized		
50,000 6% Cumulative preference shares, redeemable at \$20.50, par value \$20 each		
1,000,000 Common shares, without par value		
Issued—Common shares		
Issued at December 1, 1972	578,287	\$2,448,790
Reduction of capital in accordance with Articles of Amendment	—	1,613,795
	578,287	834,995
Less: Shares owned by a subsidiary	5,600	44,700
	<u>572,687</u>	<u>\$ 790,295</u>

Articles of amendment effective June 4, 1973 were issued whereby the issued capital of the corporation was decreased by \$1,613,795 without any repayment of capital.

(b) Reservations of common shares

- (i) The company has reserved 121,169 common shares of its authorized capital stock for possible conversion of debentures (note 7(e)).
- (ii) The company has reserved 7,500 common shares of its authorized capital stock for an employee's stock option which may be exercised on or before February 7, 1978 at a price of \$3.50 per share.

9. Segmented Gross Operating Revenues

Gross operating revenues for each of the major segments of the company were as follows:

	1973	1972
Packaging	\$ 5,599,823	\$ 5,648,029
Metal housewares	4,400,964	4,091,131
Printing	1,209,989	1,033,252
	<u>\$11,210,776</u>	<u>\$10,772,412</u>

Notes to the Consolidated Financial Statements (continued)

November 30, 1973

10. Extraordinary Item

The company's investment in shares of Scholarship Consultants of North America Ltd. was written down to a value of \$1 as at November 30, 1971. The net proceeds received by the company on the sale of these shares in 1973 were \$197,340 and the net gain was \$197,339.

11. Commitments

- (a) The company and its subsidiaries have contractual obligations to pay annual rentals of approximately \$342,000 plus, in certain cases, taxes and other occupancy costs under leases which have varying expiry dates to 1984.
- (b) The following minimum annual payments are required to be made on sales of products manufactured under certain patent rights and trademarks:

1974.....	\$23,000
1975.....	30,000
1976.....	35,000
1977.....	40,000
1978.....	50,000

12. Contingent Liability

In 1972, the Department of National Revenue reviewed the company's income tax returns for the years 1967 to 1970 inclusive, and indicated that it may attempt to tax in Canada revenues earned by a foreign subsidiary.

The Department has now indicated that it does not intend to assess these revenues as taxable in Canada. However, during the course of their examination, they have questioned certain items which could result in an increase in the company's taxable income.

Inasmuch as no re-assessment has been issued by the Department it is not possible at this time to determine whether any additional income taxes are payable by the company. Accordingly, no provision has been made in the accounts of the company for any additional income tax liability.

13. Remuneration of Directors and Senior Officers

The remuneration of the directors and senior officers aggregated \$228,788 during the year (1972—\$215,660).
